

KNR Constructions (KNRC IN)

Rating: BUY | CMP: Rs255 | TP: Rs336

November 13, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	336		305	
Sales (Rs. m)	34,274	39,789	34,221	39,690
% Chng.	0.2	0.3		
EBITDA (Rs. m)	6,341	7,361	5,818	6,747
% Chng.	9.0	9.1		
EPS (Rs.)	23.2	27.7	20.8	24.8
% Chng.	11.7	11.5		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	22,442	23,938	34,274	39,789
EBITDA (Rs. m)	4,871	4,788	6,341	7,361
Margin (%)	21.7	20.0	18.5	18.5
PAT (Rs. m)	2,359	2,221	3,262	3,894
EPS (Rs.)	16.8	15.8	23.2	27.7
Gr. (%)	(11.2)	(5.9)	46.9	19.4
DPS (Rs.)	0.4	0.4	0.6	0.7
Yield (%)	0.2	0.2	0.2	0.3
RoE (%)	15.5	12.8	16.3	16.6
RoCE (%)	16.7	14.5	17.7	18.0
EV/Sales (x)	1.7	1.6	1.1	0.9
EV/EBITDA (x)	7.8	8.0	6.0	5.0
PE (x)	15.2	16.2	11.0	9.2
P/BV (x)	2.2	2.0	1.7	1.4

Key Data

KNRL.BO | KNRC IN

52-W High / Low	Rs.312 / Rs.171
Sensex / Nifty	43,443 / 12,720
Market Cap	Rs.36bn/ \$ 481m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.102.58m

Shareholding Pattern (%)

Promoter's	55.03
Foreign	1.54
Domestic Institution	34.34
Public & Others	9.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	27.5	10.6
Relative	(7.1)	(6.0)	2.1

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Healthy execution with stellar margins

Quick Pointers:

- Company reported stellar revenues growing at 10% YoY to Rs6bn (beating our and street estimates) and EBITDAM strong at 20.6%.
- With order inflows of Rs34.7mn in H1, order book stands strong at Rs85.5bn, (3.7x TTM revenues); Targets order inflows of Rs20-30bn in H2FY21E.
- Stake sale in KNR Walayar BOT to Cube Highways concluded at equity value of Rs3.85bn and company received first tranche of Rs3.1bn.

KNR Constructions posted a strong set of numbers with revenues (up 10% YoY) and margins above our and street estimates. Labour availability and operational efficiency across project sites have been recovering gradually, currently standing at ~80% pre-covid levels and is expected to reach 100% levels post festive season. With timely payments from NHAI and conclusion of Cube deal, WC levels have seen considerable improvement. Receivable days too, have been down to 58 days (vs 90 days QoQ), despite delays in payment from Telangana Govt (Rs7.4bn). With strong order inflows, labour availability picking up, large disbursements expected from Telangana Govt (Rs5bn) in Nov'20, company is poised for stronger execution with healthier working capital cycle in H2FY21E.

KNRC has robust financials with (a) lean balance sheet (D:E of 0.01x), (b) strong execution capabilities (c) healthy operating margins (average ~18% over FY15-20) and (d) healthy working capital cycle (~90 days). It fits perfectly in our thesis of comfortable order book (Rs85.5bn as on 2QFY21) and lean balance sheet (lower risks of equity dilution). On the back of strong margin performance, we have revised our earnings estimates upwards for FY21E/ 22E/ 23E by 56.2%/ 11.7%/ 11.5%. At CMP, the stock trades at a P/E of 16.2x/ 11x on FY21E/ FY22E EPS and is trading at an EV of 8x/ 6x FY21E/FY22E EBITDA. We maintain BUY rating on the stock with a revised SOTP based TP of Rs336 (earlier TP of Rs305).

Healthy revenues with robust margins: For Q2FY21, KNR's revenues grew ~10% YoY to Rs6bn (beating our estimates of Rs4.6bn) with strong execution momentum in its robust order book of over Rs85bn. EBITDA was largely flat YoY at Rs1,240mn, with EBITDAM softening 239bps YoY to 20.6%, (beating our/ street estimates estimate of 15%/ 17.2%). During the quarter, KNRC concluded stake sale in KNR Walayar tollways and accounted for impairment loss of Rs60.1mn. Further, company has written off advances worth Rs52.3mn. Adjusting to these exceptional items, adj. PAT came in at Rs579mn (PLe Rs202mn), down 21% YoY.

Strong diversified order book, strong bid pipeline: KNRC bagged projects worth Rs34.7bn in H1 taking order book to Rs85.5bn as at 2QFY21. This translates into an order-book-to-sales ratio of 3.7x TTM revenues. Order book constitutes of Road HAM projects (31%), Road-Others (24%) and irrigation projects (45%). Company plans to bid for 10-15 projects with an average ticket size of Rs10bn and targets incremental order inflows of Rs20-30bn in H2FY21.

Exhibit 1: Quarterly Financials (Standalone): Rising labour force and healthy execution drive robust revenue growth

Y/e March (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY gr. (%)	QoQ gr. (%)	1HFY21	1HFY20	YoY gr. (%)
Revenue	5,462	5,579	6,756	4,794	6,012	10.1	25.4	10,806	10,108	6.9
Total Revenues	5,462	5,579	6,756	4,794	6,012	10.1	25.4	10,806	10,108	6.9
Expenditure	4,204	4,335	5,287	3,850	4,772	13.5	23.9	8,622	7,950	8.5
as % of sales	77.0	77.7	78.3	80.3	79.4			79.8	78.7	
Consumption of RM	1,721	1,752	2,200	1,899	1,905	10.7	0.3	3,803	3,581	6.2
as % of sales	31.5	31.4	32.6	39.6	31.7			35.2	35.4	
Employee Cost	363	303	315	278	293	-19.4	5.4	570	634	-10.1
as % of sales	6.6	5.4	4.7	5.8	4.9			5.3	6.3	
Other expenditure	2,121	2,280	2,772	1,674	2,574	21.4	53.8	4,249	3,735	13.8
as % of sales	38.8	40.9	41.0	34.9	42.8			39.3	37.0	
EBITDA	1,258	1,244	1,469	943	1,240	-1.4	31.5	2,184	2,158	1.2
Depreciation	475	517	538	331	352	-26.0	6.3	683	864	-21.0
EBIT	783	727	931	612	889	13.6	45.1	1,501	1,294	16.0
Other Income	256	70	73	61	76	-70.3	24.4	137	423	-67.7
Interest	98	142	145	102	158	61.8	54.6	260	188	38.3
PBT	941	655	859	571	807	-14.2	41.2	1,378	1,529	-9.9
Total Tax	200	186	187	173	196	-1.9	13.0	369	311	18.6
Adjusted PAT	741	469	672	398	611	-17.6	53.5	1,009	1,218	-17.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	0.0
PAT after MI	741	469	672	398	611	-17.6	53.5	1,009	1,218	-17.2
Extra ordinary items	-40	-67	0	0	-112	0.0	0.0	-112	-40	0.0
Reported PAT	701	402	672	398	498	-28.9	25.2	896	1,178	-23.9
Adjusted EPS	5	3	5	3	4	-20.9	45.5	7	9	-19.2
						bps	bps			bps
EBIDTA	23.0	22.3	21.7	19.7	20.6	-239	95	20.2	21.3	-114
EBIT	14.3	13.0	13.8	12.8	14.8	45	201	13.9	12.8	109
EBT	17.2	11.7	12.7	11.9	13.4	-380	150	12.8	15.1	-238
PAT	12.8	7.2	9.9	8.3	8.3	-454	-1	8.3	11.7	-336
Effective Tax rate	21.2	28.4	21.8	30.3	24.3	306	-607	26.8	20.4	644

Source: Company, PL

Exhibit 2: SoTP Valuation

Particulars	Segment	Driver	KNR's share	Multiple	Value (Rsmn)	Value per share (Rs)	Proportionate (%) of value per share	Basis
EPC Business	Construction	3,262	100	13	42,405	302	90%	13x on FY22 earnings
Walayar Vadakkancherry BOT Project	BOT	3,974	100	1	3,974	28	8%	Based on 1 P/B of equity
Muzzafarpur Baruani BOT	BOT	1,771	51	1	903	6	2%	Based on 1 P/B of equity
Land Cost								
Total Rs mn						336		

Source: Company, PL

Exhibit 3: Key Assumptions

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY22E
Order inflow	4,853	38,301	34,583	39,771	45,737	52,597
Revenues	19,317	21,373	22,442	23,938	34,274	39,789
Order book	23,227	40,156	52,297	68,130	79,593	92,401
Execution cycle (%)	45%	35%	30%	26%	30%	30%
Ob to sales (x)	1.2	1.9	2.3	2.8	2.3	2.3

Source: Company, PL

Concall Highlights

- KNRC reported robust revenue & earnings performance for the quarter with execution beat led by rising labour availability and higher operational efficiencies.
- KNRC's order book stands strong at Rs85.5bn as at 2QFY21, translating into 3.7x TTM revenues.
 - Of the total order book, HAM road projects account for 31%, Road (Non Captive) at 24% and 45% comes from Irrigation segment.
 - During Q2FY21, KNRC bagged one elevated highway project in Coimbatore, Tamil Nadu worth Rs11.6bn, with major land acquisition complete, AD is expected in next month.
 - Company plans to bid for 10-15 projects with an average ticket size of Rs10bn and targets incremental order inflows of Rs20-30bn in H2FY21.
- Labour availability picked up and currently stands at 80% pre-covid levels. Operational efficiency across projects too stands at ~80%. Company expects to reach pre-covid levels post the festive season.
- During the quarter, the company concluded stake sale in KNR Walayar Tollways BOT project with Cube Highways at Deal Equity value of Rs3.85bn and received proceeds of Rs3.08bn, of which Rs2.1bn is used to repay promoter loan and balance for working capital requirements. Disbursal of balance Rs0.77bn would be based on milestones.
- Net working capital days have come down to 44 days (vs 66 days QoQ) led by receivable days coming down to 58 days (vs 90 days QoQ).
 - Company has been witnessing delays in disbursement from Telangana government due to funds diversion for Covid management.
 - Total exposure to Telangana Govt currently stands at Rs7.4bn. Company expects substantial realization (over Rs5bn) in current month and balance in Q4FY21E.
- The company has already invested Rs2.26bn in its HAM projects till Q2FY21 and would be investing further Rs0.7bn/ Rs1.1bn/ Rs0.4bn in FY21E/22E/23E.
- Company incurred Capex of Rs350mn in H1, and expects total Capex of Rs1-1.2bn in FY21E.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	22,442	23,938	34,274	39,789
YoY gr. (%)	5.0	6.7	43.2	16.1
Cost of Goods Sold	7,533	7,899	11,310	13,130
Gross Profit	14,910	16,038	22,964	26,659
Margin (%)	66.4	67.0	67.0	67.0
Employee Cost	1,252	1,197	1,714	1,989
Other Expenses	8,017	9,096	13,024	15,120
EBITDA	4,871	4,788	6,341	7,361
YoY gr. (%)	14.1	(1.7)	32.4	16.1
Margin (%)	21.7	20.0	18.5	18.5
Depreciation and Amortization	1,918	1,896	2,256	2,481
EBIT	2,952	2,892	4,084	4,880
Margin (%)	13.2	12.1	11.9	12.3
Net Interest	474	522	582	670
Other Income	566	598	857	995
Profit Before Tax	3,044	2,968	4,359	5,204
Margin (%)	13.6	12.4	12.7	13.1
Total Tax	685	747	1,097	1,310
Effective tax rate (%)	22.5	25.2	25.2	25.2
Profit after tax	2,359	2,221	3,262	3,894
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,359	2,221	3,262	3,894
YoY gr. (%)	(11.2)	(5.9)	46.9	19.4
Margin (%)	10.5	9.3	9.5	9.8
Extra Ord. Income / (Exp)	(107)	-	-	-
Reported PAT	2,252	2,221	3,262	3,894
YoY gr. (%)	(14.5)	(1.4)	46.9	19.4
Margin (%)	10.0	9.3	9.5	9.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,252	2,221	3,262	3,894
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	16.8	15.8	23.2	27.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	12,042	13,542	15,042	16,542
Tangibles	12,042	13,542	15,042	16,542
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,237	10,132	12,389	14,870
Tangibles	8,237	10,132	12,389	14,870
Intangibles	-	-	-	-
Net fixed assets	3,805	3,409	2,653	1,672
Tangibles	3,805	3,409	2,653	1,672
Intangibles	-	-	-	-
Capital Work In Progress	102	102	102	102
Goodwill	-	-	-	-
Non-Current Investments	7,848	8,899	11,034	13,069
Net Deferred tax assets	1,610	1,610	1,610	1,610
Other Non-Current Assets	1,110	1,764	2,095	2,481
Current Assets				
Investments	-	-	-	-
Inventories	1,232	1,640	2,348	2,725
Trade receivables	4,761	5,247	5,634	6,541
Cash & Bank Balance	330	621	1,473	3,280
Other Current Assets	4,230	4,704	5,819	6,893
Total Assets	25,568	28,992	34,253	40,429
Equity				
Equity Share Capital	281	281	281	281
Other Equity	15,958	18,121	21,299	25,092
Total Network	16,239	18,402	21,580	25,374
Non-Current Liabilities				
Long Term borrowings	1,971	2,471	2,971	3,471
Provisions	-	-	-	-
Other non current liabilities	81	980	1,164	1,379
Current Liabilities				
ST Debt / Current of LT Debt	336	336	336	336
Trade payables	2,511	3,279	4,226	4,906
Other current liabilities	6,039	5,132	5,586	6,574
Total Equity & Liabilities	25,568	28,992	34,253	40,429

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,937	2,968	4,359	5,204
Add. Depreciation	1,918	1,896	2,256	2,481
Add. Interest	474	522	582	670
Less Financial Other Income	566	598	857	995
Add. Other	-	-	-	-
Op. profit before WC changes	5,329	5,386	7,198	8,356
Net Changes-WC	(765)	(1,756)	(1,461)	(1,450)
Direct tax	(685)	(747)	(1,097)	(1,310)
Net cash from Op. activities	3,880	2,883	4,639	5,596
Capital expenditures	(2,751)	(2,513)	(3,620)	(3,518)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(2,751)	(2,513)	(3,620)	(3,518)
Issue of share cap. / premium	-	-	-	-
Debt changes	(334)	500	500	500
Dividend paid	(73)	(57)	(84)	(101)
Interest paid	(474)	(522)	(582)	(670)
Others	46	-	-	-
Net cash from Fin. activities	(835)	(80)	(166)	(271)
Net change in cash	294	291	852	1,807
Free Cash Flow	1,859	1,383	3,139	4,096

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.8	15.8	23.2	27.7
CEPS	30.4	29.3	39.2	45.3
BVPS	115.5	130.9	153.5	180.4
FCF	13.2	9.8	22.3	29.1
DPS	0.4	0.4	0.6	0.7
Return Ratio(%)				
RoCE	16.7	14.5	17.7	18.0
ROIC	13.2	11.2	14.2	15.4
RoE	15.5	12.8	16.3	16.6
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.1	0.0
Net Working Capital (Days)	65	77	66	66
Valuation(x)				
PER	15.2	16.2	11.0	9.2
P/B	2.2	2.0	1.7	1.4
P/CEPS	8.4	8.7	6.5	5.6
EV/EBITDA	7.8	8.0	6.0	5.0
EV/Sales	1.7	1.6	1.1	0.9
Dividend Yield (%)	0.2	0.2	0.2	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	5,579	6,756	4,794	6,012
YoY gr. (%)	24.3	(5.6)	3.2	10.1
Raw Material Expenses	-	-	-	-
Gross Profit	5,579	6,756	4,794	6,012
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	1,244	1,469	943	1,240
YoY gr. (%)	38.0	1.9	4.8	(1.4)
Margin (%)	22.3	21.7	19.7	20.6
Depreciation / Depletion	517	538	331	352
EBIT	727	931	612	889
Margin (%)	13.0	13.8	12.8	14.8
Net Interest	142	145	102	158
Other Income	70	73	61	76
Profit before Tax	588	859	571	694
Margin (%)	10.5	12.7	11.9	11.5
Total Tax	186	187	173	196
Effective tax rate (%)	31.6	21.8	30.3	28.2
Profit after Tax	402	672	398	498
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	469	672	398	611
YoY gr. (%)	(10.0)	(29.0)	(16.6)	(17.6)
Margin (%)	8.4	9.9	8.3	10.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	469	672	398	611
YoY gr. (%)	(10.0)	(29.0)	(16.6)	(17.6)
Margin (%)	8.4	9.9	8.3	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	469	672	398	611
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	3.3	4.8	2.8	4.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	305	257
2	19-Aug-20	BUY	305	257
3	07-Jul-20	BUY	305	215
4	12-Jun-20	BUY	305	197
5	07-Apr-20	BUY	305	183
6	14-Feb-20	BUY	313	279
7	10-Jan-20	BUY	304	278
8	03-Jan-20	BUY	304	261
9	23-Dec-19	BUY	304	231

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	231
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Hold	99	94
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	144
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	112
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	105
15	Kalpataru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	305	257
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	52
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,032

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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